REVIEW OF UTILITY RATEMAKING PROCEDURES

Report to the Iowa General Assembly

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Iowa Utilities Board

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I. EXECUTIVE SUMMARY

Background

Senate File 458, passed during the 2003 Legislative Session, directs the Utilities Board (Board) to review current ratemaking procedures and report its findings to the Legislature by January 5, 2004. The law requires two standards to be applied to the review of the proposed changes: the cost effectiveness of the proposal and the degree of accuracy of matching rates (revenues) with costs. Interested persons were invited to file proposals for legislative change to ratemaking procedures. The Board identified 25 of these proposals for review. Following is a brief summary of the Board's findings.

General Rate Regulation Proposals

Ten proposals were considered that relate to rate of return regulation. The electric and gas investor-owned utilities in Iowa are rate regulated. The three largest telecommunications companies are price regulated, but retain the option of returning to rate regulation.

Most of the ten proposals are already available under Iowa law or are allowed in appropriate situations. For example, one proposal is the option of using a future test year to set rates. A future test year is based on estimates or forecasted data rather than on the relationship between historical costs and revenues. However, Iowa currently uses a hybrid approach that considers both historical and projected data for use in setting rates.

In recent years the Legislature has made several major changes in law that require the Board to consider projected data when setting rates. In the 2001 Session utilities were allowed to seek advanced ratemaking principles for new electric generation. A provision was also included for utilities to present a plan and budget for addressing emissions for generating facilities fueled by coal and allows the reasonable costs of implementing the emissions plan to be included in rates. In 2003 the Legislature directed the Board to consider capital infrastructure costs that would not produce significant additional revenues and would be in service within nine months after the conclusion of the test year. Capital cost changes that would occur within nine months after the conclusion of the test year and are associated with new generating plant for which the Board granted advanced ratemaking treatment are also allowed under the new law. These changes were made to spur new investment and mitigate risk to the utilities.

The two standards set by the legislature in Senate File 458 were applied to the option of a future test year. The Board found that adding this option would significantly increase the costs of ratemaking during the transition and probably in the long-term. The Board also found that use of a future test year over the

current hybrid approach would not necessarily provide rates that more accurately reflect a utility's cost of providing service.

Other proposals relating to general rate regulation that are already available under current law or have been allowed in specific circumstances are deferred accounting, automatic adjustments of rates outside a rate case, single-issue ratemaking, year-end adjustments, and electronic delivery of proposed rate increases.

Implementing temporary rates within ten days and reducing the interest rate on refunds are not found to be in the best interests of ratepayers. Both the current 90-day review period and the existing interest rate on refunds protect the customer from excessive temporary rates while giving the utility rate relief until the final rates are decided.

The Board did not come to a conclusion on the proposal for customer notification within 30 days after the filing of a proposed rate increase. Some potential postage savings could be achieved, because the utility could send a rate case notice as part of the regular billing. However, this would mean some customers would receive the notice before others, which could cause confusion.

The final proposal in this category is to allow for a ratemaking plan that would establish rates for a fixed period of time. The Board has approved multiyear ratemaking plans in the past based on a settlement among the parties to a general rate proceeding. This has provided rate predictability and has protected customers. The Board, however, believes that the current method of negotiating a multiyear plan with the parties is preferable to allowing the utility to propose a plan without the agreement of the other parties.

Telecommunications Proposals

Because the three largest local exchange carriers are price regulated, their prices do not directly reflect costs. Therefore, the legislative standard that a proposal should result in rates that more accurately reflect a utility's cost of providing service does not apply to the telecommunications proposals. The Board applied the second standard, cost effectiveness, to the proposals and found that some of them would increase regulatory costs without offsetting benefits. For example, decreasing the interval for allowed price plan modifications from three years to two years would tend to increase the associated regulatory costs. Likewise, the proposal to shorten the time available to conduct price regulation modification proceedings would result in a more concentrated procedural schedule and an increase in the associated costs for the Board and all parties. It also poses the risk of a flawed decision due to an incomplete record.

Several other proposals would delete provisions required for a company to enter price regulation. These include the requirement for a telecommunications carrier that is changing from traditional rate regulation to price regulation to either reduce its basic communications service rates by three percent or to establish new rates through a rate case. Another proposal would delete the requirement that access service rates be reduced when a company enters price regulation. While all existing rate-regulated carriers have opted for price regulation, new rate-regulated carriers might be created (by exceeding the 15,000 line threshold for regulation) through growth or sale of exchanges. In addition, a price regulated carrier may return to rate regulation and then decide at some future time to re-enter price regulation. Therefore, the requirements proposed to be deleted might serve a purpose in the future and do no harm by remaining in the law.

Energy Efficiency Proposals

Three of the proposals relate to energy efficiency. The first recommendation is that customers with an aggregated electric peak load of greater than two megawatts (MW) be exempt from energy efficiency participation and cost recovery on a voluntary basis. This proposal does not pass the cost effectiveness standard because the reduction of energy efficiency funding from large industrial customers would diminish future energy efficiency savings. It also has the potential to increase future utility rates by reducing cost effective energy efficiency, thus forcing utilities to pass through to ratepayers the costs of acquiring additional energy resources.

The second proposal would establish a single, statewide administrator for energy efficiency programs. The Board found this proposal would require a transformation of energy efficiency programs in Iowa and is outside the purview of Senate File 458's directive to review ratemaking procedures.

Finally, a proposal was suggested that the Board be given the authority for approval and oversight of the energy efficiency plans of municipal and cooperative utilities. Current law only requires that these utilities file plans with the Board. This proposal does not strictly apply to ratemaking methods and, therefore, does not fit into the framework of this review.

II. INTRODUCTION

The Iowa Utilities Board (Board) has prepared the following report in response to the mandate of the General Assembly as set out in Acts of the 80th General Assembly, 2003 Session, Senate File 458, Section 150. The General Assembly directed the Board as follows:

> The utilities board shall initiate and coordinate a review of current ratemaking procedures to determine whether different procedures would be cost-effective and would result in rates that more accurately reflect a utility's cost of providing service to its customers in Iowa. The board shall allow the consumer advocate division of the department of justice, the rate-regulated utilities, and other interested persons to participate in its review. The board shall report the results of its review to the general assembly, with recommendations as appropriate, on or before January 5, 2004.

On July 14, 2003, the Board issued an order initiating an inquiry, identified as Docket No. NOI-03-2. Interested persons were invited to file, by July 25, 2003, proposals for changes to ratemaking procedures, with the primary focus on changes that would require legislative action. After review of the submitted proposals, the Board issued an order on September 2, 2003, which identified ratemaking procedures for consideration and established a procedural schedule. The participants were asked to file comments by September 15, 2003, and reply comments by October 3, 2003. Three workshops were held on November 7, 2003, for further discussion and to give participants an opportunity to respond to questions by Board staff. The three separate workshops addressed: (1) proposals involving all rate-regulated utilities, (2) proposals affecting only telecommunications utilities, and (3) energy efficiency proposals. Additional comments subsequent to the workshop were allowed by November 14, 2003.

Participants filing information in the inquiry included the Consumer Advocate, Division of the Department of Justice (Consumer Advocate), MidAmerican Energy Company (MidAmerican), Qwest Corporation (Qwest), Interstate Power and Light Company (IPL), Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom (Iowa Telecom), Ag Processing, Inc. (Ag Processing), and Aquila, Inc., d/b/a Aquila Networks (Aquila). Atmos Energy Corporation, Deere & Company, and the Iowa Consumers Coalition expressed interest in and followed the proceedings. Agri Industrial Plastics, HON Industries Inc., IPSCO Steel Inc., Alcoa Mill Products, Box USA, Curries and Graham, Elkem Carbon, General Mills, Griffin Pipe Products Co., Griffin Wheel Company, Lehigh Cement Co., Nestle Purina, North Star Steel, Penford Products, PMS Industries, Inc.,

Progressive Foundry, and Quaker Foods & Beverages joined with Ag Processing in addressing the energy efficiency proposals.

The Legislature gave the Board two standards to apply to the proposed changes: the cost effectiveness of the proposal and the degree of accuracy of matching rates (revenues) with costs. These two standards have been applied to each of the proposed changes. This report examines the identified proposals, summarizes the comments of the participants, and reaches conclusions under the standards given.

III. GENERAL RATE REGULATION PROPOSALS

Description of Current Iowa Ratemaking Practices for Electric and Gas

Iowa currently uses a hybrid approach that considers both historical and projected data for use in setting rates. A rate proceeding before the Board begins with historical data. This is adjusted for known and measurable changes in costs not associated with a different level of revenue and revenues not associated with a different level of cost that will occur within twelve months from the date of filing by the utility. Typically, an historical test year is the latest calendar year; however, a test year can be any prior 12-month period of audited information. In a rate proceeding, the utility files actual data for the historical test year and proposes adjustments to revenues, expenses, assets, liabilities, and capital issuances. These changes are known as “pro forma adjustments.” The Board may also consider other proposed changes under its authority in Iowa Code § 476.33(4) to "consider other evidence." Once the Board decides which adjustments are allowed and the resulting revenue requirement, the utility files new rates that remain in effect until a new case is brought. The goal in setting rates is to take the data from the historical test year and make adjustments to the historical data that more closely reflect the expected costs and revenues going forward.

The fundamental principle in determining rates is the matching principle. Unless there is a matching of costs and revenues, the test year is not a proper one for fixing just and reasonable rates. The inclusion of costs without matching revenues may produce excessive rates. The inclusion of revenues without matching costs may deny the utility reasonable rates. The relationship between costs and revenues for the test period used, whether historical or projected, and the validity of that relationship, constitutes one of the most vital steps in the determination of just and reasonable rates.

Although the Iowa statute has an historical test year as its base, the Board is not restricted from looking beyond the test year in appropriate situations. The statute expressly grants the Board the authority to consider other evidence, and the Iowa Supreme Court has affirmed the Board’s interpretation that this provision allows it to consider adjustments that are outside the test year. Proposed adjustments are considered on a case-by-case basis to ensure they meet the requirements and concerns of the matching principle.

In the past several sessions, the Iowa Legislature has implemented several major changes that look beyond the historical test year in the setting of rates. A 2001 law allows utilities to seek advanced ratemaking principles related to major capital investments in generating facilities. Utilities may seek binding regulatory assurances related to the treatment of these investments in future rates. Utilities may also present a plan and budget for addressing emissions from rate-regulated electric power generating facilities that are fueled by coal. The law

requires the reasonable costs of implementing the plan to be included in rates. Finally, during the 2003 Session, the Legislature required the Board to consider capital infrastructure costs that will be in service within nine months after the conclusion of the test year and will not produce significant additional revenues. Capital cost changes that will occur within nine months after the conclusion of the test year and are associated with new generating plant for which the Board granted advanced ratemaking treatment are also allowed under the new law. These changes were made by the Legislature to spur investment in generation, mitigate risk associated with environmental requirements, and mitigate regulatory lag with respect to major capital additions and cost of capital. In each case, they require the Board to consider projected data when setting rates.

Two other aspects of Iowa's ratemaking approach require discussion in order to understand proposals for change. Utilities are able to implement rate increases that are consistent with previously accepted regulatory principles within three months of a rate filing. These temporary rates give relief to the utility during the pendency of the 10-month ratemaking process. If final rates are lower than those collected during the proceeding, refunds are made with interest set at a statutory level. Iowa's statute also allows for the automatic adjustment of rates in certain circumstances. These adjustments have historically been used to flow through the cost of purchased gas and the cost of power purchases, among other things.

1. Option of a Future Test Year

a. Description of the Proposal

IPL proposes the option of using a future or projected test year to determine rates. This method is based not upon the relationship between historical costs and revenues, but rather on estimates or forecasted data. All the components that would be considered when determining rates, including the revenues, expenses, rate base, working capital, and capital structure, are based on estimates and projections.

IPL's specific proposal would limit the use of projected data to a two-year period and would allow the utility to choose whether it would use an historical period or a projected, forecasted period for setting rates. IPL, Iowa Telecom, Aquila, and MidAmerican support an optional future test year as long as the option to choose either a historical or future test year is allowed. Consumer Advocate, Ag Processing, and Qwest argue against the option of a future test year.

b. Review of Other States

Survey results filed by Consumer Advocate[1] indicate that 30 states use historical test periods, seven states use future test periods, eight allow utility choice, and six use a hybrid form. IPL responded with the results from three different surveys[2] that categorize the test periods in slightly different ways, making strict comparisons difficult.[3] However, approximately 30 states continue to employ the historical test period. Other states use a variety of alternatives ranging from utility choice, hybrids/partially forecasted, to fully forecasted test years.

Of the closest Midwestern states, South Dakota, Missouri, Indiana, and Kansas use historical test periods. Minnesota and Illinois allow utility choice of historical and future test periods. Wisconsin requires a future test year.

Illinois has the option of a future test year, but requires an independent audit of projections to explore the link between actual data, assumptions, and projections. Illinois also has a significant number of rules that apply specifically to a filing based on a future test year. Companies that choose the option of a future test year must also file information to support an historical test year. The appropriateness of either an historical or future test year might be an issue of controversy in any particular case. According to Illinois staff most companies prefer the historical test year because they find these requirements to be burdensome.

Minnesota also allows the option of a forecasted test year. However, its Commission does not allow the forecasted test year to reach out very far. For example, if a case is filed December 31, 2003, the company might use a 2004 test year. By the time the 10-month process ends, the end of the forecasted test year is close. In this example, the Commission would not allow a 2005 test year.

Wisconsin mandates a future test year for large utilities. Wisconsin staff states their regulatory approach is very hands on and requires frequent audits. Major energy utilities in Wisconsin file a rate case every year unless they are under a rate freeze. Wisconsin staff also notes a strong auditing or accounting

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[1] Taken from Consumer Advocate Witness Brosch's Attachment MLB-3 entitled, "Survey of State PUC Test Period Approaches as of September 2003."

[2] The three surveys are:

- Regulatory Research Report, Table entitled "Regulatory Practices Test Period/Rate Base/Statutory Case Lag Summary of All 50 States plus the District of Columbia," 2003.
- Deloitte & Touche, "Questar: State Commissions Test Year Survey," 2000.
- NARUC, Table entitled "Type of Test Year Used in determining Rates: Electric and Gas Utilities," Compilation of Utility Regulatory Policy 1995-1996.

[3] For example, of the three surveys provided by IPL, one identified six states as using future test year periods (similar to Consumer Advocate's finding), but the other two identified twice that many.

background is required to effectively review a forecasted test year and most of its auditors are CPAs. In addition, a larger staff is required to review a future test year; the Wisconsin Commission has 185 staff, double the number for the Board and Consumer Advocate combined.

Both Illinois and Minnesota require that future test year filings also include historical period data so that comparisons can be made between the estimated data proposed for the projected test period and actual data from the historical test period. Wisconsin, which requires future test year filings, also requires annual reports of a utility's costs and revenues to allow the Commission to continually review and assess the reasonableness of a utility's forecasts.

c. Is the Proposal Cost Effective?

IPL states that a projected test year would not significantly increase the cost of utility ratemaking. It suggests that the only additional cost is the hiring of consultants well versed in capital budgeting, a short-lived expense until the Board and Consumer Advocate staff are trained in this area. Furthermore, while new issues would arise from using a projected test year, many issues argued today would disappear. As for IPL's own costs, it already does forecasting and is comfortable with its ability to project items such as customer levels and usage, fuel costs, and capital expenditures.

At the same time, IPL acknowledges that more frequent or annual rate reviews may be necessary because of the lack of annualization adjustments in a projected test year. Based on the company's experience, a future test year regulatory approach is more active and requires frequent audits. IPL also states that weather normalization, a necessary element in a future test-year case, would require additional staff expertise. IPL's sister-company, Wisconsin Power and Light Company, normalizes revenues for weather based on a regression model and analysis. In Iowa, weather normalization is routinely used in natural gas proceedings. However, though utilities advocated the use of weather normalization for electric cases in the 1980s, normalization was never approved and it has not been a component in more recent electric cases. Thus, both the Board and Consumer Advocate would need to acquire expertise in this area. Finally, the company agrees that Consumer Advocate would need new skills to evaluate projected versus historical data in a rate case[4] because it is unlikely these skills could be found in an outside auditing firm.

MidAmerican acknowledges that the cost of preparing a case with a proposed future test period would be greater because data for an historical period must be filed at the same time. However, to the extent the use of the forecast test period

[4] Since the mathematics related to thermodynamics are well known and much natural gas usage is heating related, normalization is a relatively simple procedure for natural gas. Though electricity usage related to heating and cooling can be fairly predictable, usage of electricity for other purposes is far less predictable, making normalization much more complex for electricity.

better reflects the cost of providing service during the period in which the rates are in effect, some future rate case proceedings and costs may be avoided. The company argues that the rates based on the forecasted data already include any increase in costs that may occur when the rates are in effect, and so a utility should not have to file another rate case until it has moved beyond the forecasted period.

Consumer Advocate believes the future test-year option would dramatically increase the cost of utility ratemaking in Iowa. Both the cost of a proceeding and number of proceedings would increase. Consumer Advocate's expert states that future test years are inherently more difficult to prepare, document, investigate, and verify, causing the utility, the consumer representatives, and the regulatory agency to invest more resources in the process of regulation. There also would be new issues related to the use of projections, such as adjustments for inflation and calculations of productivity.

Ag Processing's main concern is that the use of future test years will add litigation costs to the point where industry's involvement in the process is precluded. In addition, use of future test years will cause an increase in rate case-related workloads for Board members, Board staff, and Consumer Advocate.

Thus, it is evident there is no consensus among the participants on the cost effectiveness of this proposal. The information filed shows there would be transition costs as staffing levels and skills are changed to accommodate for an additional ratemaking method. The review of other states indicates a need for additional staff including economists, statisticians, auditors, and CPAs. A number of rulemakings would be necessary. Litigation would probably increase with a new approach to ratemaking. It appears from the record there would be long-term costs associated with the change for a number of reasons:

- Frequency of rate cases may increase, especially if a future test-year approach similar to Wisconsin's is used.
- If the company files a future test-year option, other parties to the case may file the historical test-year option. This would necessitate evaluation of simultaneous historical and future rate cases, increasing the work, the cost, and the time required for the proceeding.
- A more active auditing role seems essential.
- New issues appear likely with a future test-year filing.
- Additional costs are associated with a possible independent audit.[5]

[5] In Illinois Commerce Commission Docket No. 92-0357, MidAmerican used some elements of a future test year and required the services of an independent auditor. The cost of that audit was $132,000.

d. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

IPL believes that a projected test year provides a better matching of rates with costs and revenues that will occur at the time those rates will be in effect. This would benefit customers because changes in costs are included in rates sooner, allowing customers to receive better pricing signals and lessening differences between current customers and future customers. The company asserts that a projected test year benefits the utility by providing for full regulatory assurance and up-front guidance on planned expenditures. Under a future test year, the Board would provide proactive input into capital investment decisions and other expenditures before those decisions are implemented. Under the current standard, the Board is limited to defining public policy through the denial of costs that have already been incurred.

IPL contends that costs and revenues in an historical test year are as much as two years old before rates are finalized. IPL questions the value of auditable data and the assumption of a constant historical relationship between revenues and costs, especially during times of major capital investment.

The company also asserts that a projected test year benefits the utility by potentially reducing the cost of capital. It states that the financial community prefers a regulatory structure that allows a projected test period because there is less risk that prudent capital expenditures will not be recovered in rates. Less risk to the stockholders may mean improved ratings that may result in reducing the cost of capital.

MidAmerican states there is little difference between a future test period and an historical test period that reflects appropriate post test-year adjustments. At the same time it argues that two fundamental points need to be kept in mind: (1) ratemaking exists to determine the reasonableness of rates that will apply sometime in the future, after the rate filing has been made, and (2) there is no inherent reason why historical data from the company's books and records more accurately reflects what will happen in the future than forecasts will.

However, Consumer Advocate disagrees that a future test year would result in rates that more accurately reflect a utility's cost of providing service. Further, the Consumer Advocate states it is impossible to know if a forecast is accurate until the forecast period has passed. It also argues that what is important in establishing accurate rates is the relationship between revenues and costs. As long as a recent and internally consistent historical test year is used, the revenue/cost relationship will generally be representative of ongoing conditions and the revenue requirement will be accurate for the period when rates are in effect. Consumer Advocate also believes that the mere potential to reduce regulatory lag with a future test-year option is not worth the risk of reducing or eliminating the critical incentive the current system provides Iowa utilities to

operate efficiently. Regulatory lag tends to replace some of the efficiency incentives that are otherwise blunted by cost-of-service regulation. It also rewards or punishes a utility in the short run by attributing cost and revenue changes to shareholders between rate cases. Consumer Advocate adds that notwithstanding IPL's assertion concerning the staleness of historical data, the use of a future test year will increase the probability of inaccuracy, excess profits, and excessive rates. Further, a future test year relies heavily on utility management's expectations, and it is likely that management will err on the high side when estimating future costs and on the low side when estimating future revenues.

Consumer Advocate believes giving the utility the option of a future test year invites abuse of the regulatory process. It would mean that utility companies would submit the type of filing most beneficial to shareholders at any given point in time. Making an option available allows gaming of the system to the advantage of the party that is granted the option to choose.

Ag Processing states that a future test-year filing does not necessarily reflect a more accurate cost of service. It believes there are more appropriate ways to match revenues and costs and send price signals to customers.

The Board has the authority to allow additional evidence into the record after the initial filing. In a situation where only part of a proposed adjustment is known at the time of filing, additional updates have been allowed up through the date of the hearing. The Board also is able to consider other evidence outside the test period. Recently, the Board allowed year-end rate-base adjustments for major plant additions and considered several changes to capital structure that occurred after the test year. It also indicated a willingness to consider alternatives to the thirteen-month average capital structure.

In addition, the Legislature has recently enacted provisions that address the desire for regulatory input into capital investment decisions, regulatory risk related to environmental requirements, and regulatory lag. Iowa Code § 476.53, enacted in 2001, provides for advanced ratemaking principles for new generation and transmission projects. Both IPL and MidAmerican have requested and received advanced ratemaking principles that are binding on future ratemaking. These advanced ratemaking principles have led to the following capital investment in Iowa:

- IPL's 568 MW natural gas-fueled generation plant in Mason City
- MidAmerican Energy's 540 MW natural gas-fueled generation plant in Pleasant Hill
- MidAmerican Energy's 900 MW coal-fueled generation plant in Council Bluffs
- MidAmerican Energy's 310 MW wind energy facility in northwest Iowa

Iowa Code section 476.6(25) allows utilities to look to the future with respect to emission controls on coal-fired generating plants. Utilities are required to develop a plan and budget designed to meet environmental requirements. The Board then must include the reasonable costs of implementing the plan in rates. Amendments to Iowa Code § 476.33 enacted during the 2003 Session allow the Board to consider capital infrastructure investments in service within nine months after the conclusion of the test year and cost-of-capital changes that occur in that time period for new generating plants, thus lessening regulatory lag related to large investments.

Since these statutory provisions allow for future costs of large investments to be considered in a rate case, a future test year would provide little additional benefit.

e. Conclusion

The Board concludes the implementation of the future test-year option would significantly increase costs of ratemaking during the transition and probably in the long-term. It also finds use of a future test year over the current hybrid approach will not necessarily provide rates that more accurately reflect a utility's cost of providing service. Iowa's hybrid approach allows for consideration of evidence outside the historical test year. The implementation of two new laws allowing regulatory assurances for capital investment decisions and for environmental improvements; and the ability to consider capital investments and cost of capital changes after the test period alleviate the major concerns raised by IPL.

2. Deferred Expenses and Revenues Occurring Outside the Test Year

a. Description of the Proposal

IPL proposes that deferred accounting would be a useful procedure to support a future test-year case. Large abnormal expenses and revenues occurring outside a test year could be accounted for in a deferred account and reflected in the utility's next rate case.

Consumer Advocate argues that deferred accounting is just a variation of piecemeal, or single-issue, ratemaking. Single-issue ratemaking occurs when a cost or revenue item is considered without considering other costs and revenues. Not generally accepted, single-issue ratemaking can lead to an improper matching of costs and revenues, and potentially unjust and unreasonable rates. Consumer Advocate states the inclusion of costs without matching revenues will produce excessive rates; the inclusion of revenues without the matching costs will deny the utility reasonable rates. It adds that the relationship between costs and revenues is an important component in the determination of just and reasonable rates. If deferred accounting is used appropriately and is properly matched to other costs of providing service, it need not result in single-

issue ratemaking. However, deferred accounting can distort the revenue requirement if other offsetting cost savings or revenue increases are ignored.

b. Is the Proposal Cost Effective?

Allowing the use of deferred accounting in a rate case would not have a significant financial impact on the cost of the rate proceeding since the Board has current authority to allow deferred accounting.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

If the costs in a deferred account are properly matched against related cost reductions and revenues, they could result in rates that more closely reflect the cost of providing service. Since a utility controls the information concerning these accounts, there is the potential that this matching may not occur.

d. Conclusion

Deferred accounting is available under current law. Utilities may request accounting rulings from the Board. However, rulings made outside a rate case are only advisory, not binding, when considered in a future rate case. The utility may account for costs and revenues in a deferred account but the Board retains the authority to determine whether the costs and revenues will be allowed in rates, and under what terms and conditions.

3. Government-Mandated Costs Outside a Rate Case

a. Description of the Proposal

MidAmerican proposed that government-mandated expenditures should be recovered through an automatic adjustment rather than through a rate case. These are non-fuel items such as capital projects for the relocation or improvement of any facilities when the expense of these items are verifiable or mandated by a government entity or are outside of the control of the utility's management. Mandated expenses could also include emission control equipment, manufactured gas plant remediation, or expenses related to upgrading facilities to thwart terrorism attacks. MidAmerican says the automatic adjustment mechanism is particularly appropriate in situations where it is desirable to obtain a better matching of costs and revenues in a specified period than could be accomplished by infrequent rate cases.

Aquila believes that government-mandated expenditures should be recovered through an automatic adjustment including expedited recovery for mandated non-fuel expenses and those required by the Office of Homeland Security.

Consumer Advocate argues that government-mandated costs should not be automatic because they are not volatile and may be offset by other cost changes that are not verifiable. Furthermore, automatic recovery provides no incentive to minimize costs. Consumer Advocate believes the Board currently has the authority to provide for automatic adjustment clauses.

b. Is the Proposal Cost Effective?

Although Iowa law allows for automatic rate adjustments, the types of expenses discussed in this proposal have not been allowed. The Board would have to approve any new automatic adjustment. The cost involved would be the additional time necessary to establish the automatic adjustment and to verify that reasonable accounting was used for all of the major elements of the proposed government-mandated expenditure.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

An automatic adjustment would allow a utility to recover the cost of government-mandated items in a timelier manner and without the necessity for a rate case; however, it may also allow for piecemeal ratemaking if consideration of matching cost and revenue changes do not take place.

d. Conclusion

Iowa law already allows for the automatic adjustment of rates outside a rate case. For example, the Board currently allows automatic adjustment of electric rates for fuel-related costs. These fuel costs are beyond direct control of management, are subject to sudden significant changes in level, are an important factor in determining costs, and are readily, precisely, and continually segregated in accounts. Automatic recovery is also allowed for energy efficiency expenditures. All amounts recovered through automatic adjustments are subject to prudence reviews.

The types of expenses discussed in this proposal have not been historically allowed to be collected through an automatic adjustment mechanism. Any automatic adjustment mechanism for government-mandated costs would need to meet similar criteria as fuel-related costs and meet the requirements of the matching principle to ensure just and reasonable rates.

It should be noted that when a utility has voluntarily agreed to forego rate increases for a period of years, allowance of new automatic recovery for expenses incurred during this period would change the conditions under which the agreement was reached. Any new automatic adjustments should not be implemented during such a period.

4. Use of Single-Issue Ratemaking

a. Description of the Proposal

MidAmerican proposes that rate adjustments producing small amounts of revenue should be allowed outside of a general rate proceeding.

b. Is the Proposal Cost Effective?

If a utility were allowed to file for a rate increase based upon a single cost item, there would likely be an increase in filings and the regulatory costs would increase. Some, if not most, of these single-issue ratemaking filings could become time-consuming contested cases and would place an additional burden on Board, Consumer Advocate, and third-party resources. There may be a decrease in general rate cases since there would be allowances for rate recovery between rate cases.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

The proposal does not provide for the proper matching of costs and revenues that is essential in setting just and reasonable rates. For the filing to result in rates that more accurately reflect a utility's cost of providing service, any corresponding cost savings or additional revenue would have to be reviewed for possible offset. Allowing the costs to be recovered without the offsetting revenues or reduction in costs would not accurately reflect the cost of providing service. Rates are best established in a general ratemaking proceeding where all the costs and revenues can be reviewed. If a utility is allowed to file for rate relief every time an increase in costs occurs, rates will likely be higher than under existing procedures.

d. Conclusion

This proposal would allow a utility to file for rate increases without having to give consideration to offsetting decreases in costs or increases in revenue in violation of the matching principle. The Board has allowed single-issue ratemaking outside of a general rate case in specific cases. However, single-issue ratemaking should be a rare occurrence and not become an accepted way of setting rates.

5. Adjustments to Year-End Data

a. Description of the Proposal

IPL proposes changes to require the Board to consider data that will become known and measurable within twelve months from the commencement of the proceeding. The proposal would require that any pro forma adjustments be made using a year-end test year, rather than a thirteen-month average test year.

b. Is the Proposal Cost Effective?

The proposed statutory changes would make it mandatory for the Board to consider all post test-year changes, not just changes that exist at the commencement of the proceeding. As previously stated, the Board has the ability (and has used it) to adjust historical test year data beyond known and measurable changes related to data that exists as of the date the proceeding is filed regarding known and measurable changes in costs not associated with a different level of revenue and revenues not associated with a different level of cost, that will occur within twelve months from the date of filing by the utility. The authority to do so exists in Iowa Code § 476.33(4), which states the Board's ability to "consider other evidence". In recent proceedings, the Board has considered these types of issues under its current statutory authority. Therefore, the resources needed to review a rate case in the context of the statutory changes would be similar to the resources needed currently. Given the Board's use of already existing authority, the benefits of changing the statutory language are not obvious.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

The use of a year-end rate base and capital structure could reduce regulatory lag to some degree by allowing full rate treatment for items that were placed in service late in the test year. Potentially, this could make rates better reflect the costs of the utility.

Consumer Advocate states that an annualized, or year-end, test period is somewhat more conducive to known and measurable changes beyond the test year end and does have the effect of eliminating up to six months of regulatory lag. However, Consumer Advocate believes there is no advantage to the use of either the average or year-end-annualized test period approach that cannot also be achieved with known and measurable changes routinely considered by the Board under existing ratemaking procedures. It points out that the average test year reduces the dependence on only a single data point, which could be distorted by unusual accounting entries or one-time transactions. Also, by using the average approach, the income statement presentation is simplified.

Customer levels, employee levels, depreciation, property taxes, and other costs do not need to be adjusted to reflect year-end annualized numbers.

With respect to the capital structure, a thirteen-month average capital structure for determining rates helps to eliminate distortions caused by issuance of new preferred stock and long-term debt, equity infusions, security retirements, and fluctuations in retained earnings. Further, if a year-end test year were used, any of these one-time events could distort the capital structure, making the capital ratios unrepresentative. The thirteen-month average capital structure averages these potential events over several months to provide a better match between capital structure, rate base, revenues, and expenses.

Any capital issued outside the test year is not normally included in the capital structure because it would violate the matching principle. The thirteen-month average capital structure supports the thirteen-month rate base. By using data for only one point in time, the utility could include an equity infusion in the month of December such that the rates are set using a capital structure with a higher common equity ratio. Common equity is the most expensive source of capital available. Therefore, the customers' rates would support a higher overall cost of capital than rates determined using an average capital structure.

d. Conclusion

The current statute already allows the Board to consider year-end evidence. Any proposal to use a year-end test year, annualize single items, or approve appropriate pro forma adjustments is reviewed and considered on a case-by-case basis by the Board to ensure compliance with the matching principle.

6. Temporary Rate Implementation

a. Description of the Proposal

IPL proposes to modify the way in which temporary rates are implemented. First, it proposes to eliminate language requiring the Board to apply previously established regulatory principles in determining the appropriate level of temporary rate relief. Second, IPL proposes to reduce the time frame for implementation from 90 days to 10 days.

In addition, IPL argues that since its proposal would eliminate three months of review for temporary rates, the ten-month period allowed to reach a final decision should be reduced to seven months.

MidAmerican agrees with IPL's proposal but argues the utility should have the option of implementing temporary rates immediately or using the existing temporary rate procedures.

Consumer Advocate argues that if temporary rates are implemented immediately, without review, the ten-month time frame should be extended to allow for additional review of the final rates.

b. Is the Proposal Cost Effective?

Implementing temporary rates within 10 days, rather than allowing 90 days for review and approval, would probably not add costs to the rate proceeding. However, the ultimate issues to be decided in the case would remain. Most of the costs that would be saved by eliminating analysis and approval of temporary rates would be shifted to the remainder of the case. Therefore, it would not likely be cost effective, or even possible, to shorten the schedule in the manner proposed. The proposal to shorten the schedule appears to proceed from the assumption that temporary rate review requires a significant part of the first 90 days, but experience has shown that review of temporary rates actually requires very little in the way of Board resources.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

The current statute allows 90 days for implementation of temporary rate increases. Increases based on established regulatory principles are allowed. If the utility seeks recovery for expenditures that have been denied in the past or are new, it must wait until the Board has approved the expense before it can recover these expenses in rates. IPL proposes to eliminate the requirement in the statute that past Board precedent is used in determining an appropriate increase for temporary rates. Instead, the entire increase sought by the utility could be implemented in temporary rates. Consumer Advocate argues there must be some reasonable constraint on temporary rates. If temporary rates are put into effect without any regulatory review, utilities could use ratepayers as a source for instant rate relief when cash flows are below desired levels. Consumer Advocate contends that refunds with interest at the end of a case are not a sufficient remedy for customers who may have difficulty paying their utility bills even before the rate increases.

Eliminating the use of previously established regulatory principles when setting temporary rates would probably make temporary rates less, rather than more, accurate. The use of previously established regulatory principles results in temporary rates that are based on prior Board decisions and are therefore likely to bear a reasonable relationship to the final rates. Removal of this factor would mean potentially unlimited temporary rates that would have no relationship to actual costs.

d. Conclusion

IPL's initial proposal removes the requirement that temporary rate increases be based on previously established past Board precedent. It also would implement temporary rates in 10 days rather than the current 90-day period for review and approval. In the workshop IPL indicated a willingness to use past Board precedent in order to implement temporary rates without Board review. The Board believes that the current requirements, past precedent and a 90-day review period provide a balance that gives the utility expedited rate relief while the case progresses. It also protects the customer from excessive temporary rate increases.

Because IPL's proposal would essentially eliminate three months of the review process, it also proposes to reduce the current ten-month rate case review period to seven months. Even if review of temporary rates is removed, other issues requiring a full ten-month proceeding remain. Verification of company figures and calculations often require the full time period.

Finally, if the statutory method is modified to allow implementation of temporary rates within 10 days, the current interest rate should be retained. (See the next issue.) The relatively high interest rate serves as a constraint on the utility to discourage it from using the ratepayers as a source of funds during the pendency of the proceeding.

7. Interest Rates on Refunds

a. Description of the Proposal

Iowa Telecom proposes to reduce the interest rate on refunds. The current rate is two percentage points above the 24-month consumer loan rate. MidAmerican states the rate should: (1) not be so high that it works to prevent utilities from seeking needed rate relief, (2) be high enough to discourage utility use of excessive temporary rate relief for financing purposes, and (3) adequately reimburse customers for the use of their money. MidAmerican encourages the Board to consider using a public utility bond yield as representative of the utility's credit quality. This long-term rate has a built-in penalty. Short-term financing would be used as a source of funds during the period that temporary rates are in effect. Since short-term rates are cheaper than long-term sources, the utility would pay a "penalty" if the utility were required to make refunds to the customers. The customers would receive a return higher than any other investment option of the same duration and recover their opportunity cost of lending funds to the utility.

Consumer Advocate opposes any change to the interest rate on refunds. It argues that to reduce the current average commercial bank rates to money

market account rates would be unfair. Many customers have outstanding credit card balances, bank loans, and mortgages at higher rates of interest such that their cost of money would likely be higher than money market rates of return. It is Consumer Advocate's position that the current rate is more indicative of the opportunity cost of capital for ratepayers. Also, utilities may be overly aggressive in temporary rate requests if extremely low interest rates are used. This would make customers involuntary investors in the utility. The interest rate should be at or above the average consumer's marginal cost of capital.

IPL proposes to implement temporary rates immediately without Board review and approval and did not propose any change to the current rate. Qwest also agrees that no change is needed.

b. Is the Proposal Cost Effective?

Changing the refund interest rate has no cost implications for implementation. It would simply require looking to a different indicator to set the rate.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

The interest rate is not intended to reflect a utility's cost of providing service. It is intended to partially or fully compensate the consumer for the use of money during the pendency of a rate case. It may also provide a deterrent to collecting excessive temporary rates. The 24-month consumer loan rate is a borrowing rate, not an investment rate. Based on August 2003 data, this rate was 11.95 percent, slightly lower than the Credit Card Plan (All Accounts) rate of 12.49 percent for the same time period. After adding the additional two percent, as required in Iowa Code, the refund rate exceeds the credit card plan rate. The high refund rate that results from this formula suggests that it is used to protect the customers from the utility charging excessive temporary rates. If excessive temporary rates were in effect, a customer may be forced to either use funds that would have been used to reduce other debt obligations such as credit cards or to borrow funds to pay the bill. This assumption seems consistent with the position held by the Consumer Advocate. If a refund were necessary, the consumers would more likely receive their opportunity cost of money, providing better protection than if a lower rate were used.

MidAmerican suggests that the existing rate is excessively punitive and should be lower. MidAmerican argues that the public utility bond yield is more representative of the utility's credit quality. It also claims that the customer would earn a higher return than for any other investment for that duration. However, the concern may not be with recovering a customer's opportunity cost of investment, but instead with covering customers' potential borrowing rates.

Most Iowa utilities have bond ratings in the range of A to Caa. Using August data from the Merchant Bond Record, the yields for an "A" rating and a "Baa" rating ranged from 6.78 percent to 7.08 percent. The recommended bond utility rate is almost half of the current consumer rate. Refunds would be based on the individual rating of each utility.

d. Conclusion

The proposed change is neutral with respect to cost-effectiveness but would not tend to produce more accurate rates. The existing rate is set at a high level to protect customers from paying excessive temporary rates. If the utility wishes to avoid paying this rate on potential refunds, it should only request reasonable rates when it files for temporary relief. As discussed previously, IPL is proposing a statutory change that would allow it to collect temporary rates immediately without Board review. If this change were allowed, the need for maintaining the current refund rate is even greater.

8. Electronic Delivery of Proposed Rate Increase Notices

a. Description of the Proposal

MidAmerican proposes a statutory change to allow for electronic delivery of proposed rate increase notices.

b. Is the Proposal Cost Effective?

The comments lack sufficient information to conclude that electronic delivery of customer notices meets the cost-effectiveness criterion. Electronic delivery potentially reduces notice costs. However, the utilities that commented on this proposal indicated that their systems currently are not set up for electronic delivery of customer notices. No comments estimated the start-up or program change costs and ongoing expenses. Qwest's comments concerning the use of radio and television indicate that "electronic" may be too broad a term, but no alternative term was offered.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

The form of notice does not significantly affect costs recovered as part of the rate proceeding.

d. Conclusion

By the conclusion of the inquiry, MidAmerican indicated that Iowa law may already allow for the electronic delivery of rate notices. Qwest and MidAmerican

encouraged the Board to allow for electronic delivery and allow parties to work out details in the future as technologies develop.

9. Notification Within 30 Days of Filing of a Proposed Rate Increase

a. Description of the Proposal

MidAmerican proposes to change the notice period from no more than 62 days prior to filing to within 30 days after the filing. The utility would then be able to work with the Board to include preliminary public comment hearing dates and locations on the notice of proposed rate increase filings. The practical effect of the change may not be very great; however, under current law, most utilities send the notice the day before they file the rate case. Under the proposed change, they would be able to delay the notice by two or three days and then include the notice in the regular bills to customers.

b. Is the Proposal Cost Effective?

The change would not incur additional costs and might allow utilities to avoid the postage expenses associated with mailing separate rate case notices. It could be beneficial, as the Board might have the opportunity to set up preliminary dates and locations for public comment hearings and work with the utility to list the dates and locations in the notice of proposed rate increase to its customers. However, that can be accomplished with the existing process as well.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

The time frame for rendering the notice does not play a role in the costs that are considered as part of the rate proceeding.

d. Conclusion

The statute currently requires rate-regulated utilities to provide notice of a proposed rate increase within sixty-two days prior to the time the application for the increase is filed with the Board. The proposed change would potentially allow utilities to save postage costs, because they could send a rate case notice as a part of the regular billing cycle. However, this would mean different customers would receive the notice at different times, which could cause customer confusion. Thus, it is difficult to say if the proposed change would be an improvement.

10. Rates for a Fixed Period

a. Description of the Proposal

MidAmerican proposes to establish a mechanism that would allow filing and approval of a ratemaking plan that would establish rates for a fixed period of time. While Consumer Advocate has agreed to such multiyear plans in the past, it opposes the Board having the authority to approve such a plan over its objection.

b. Is the Proposal Cost Effective?

This proposal may be a more cost-effective method of ratemaking since it would set rates for a certain period of time. A review of the rate cases filed since 1981[6] shows that rate cases are often filed at three-or four-year intervals. Allowing a utility the option of filing a multiyear ratemaking plan could fit this pattern.

Both the utility and Consumer Advocate would be precluded from bringing cases during this time. That could result in savings if a rate case would otherwise have been filed. But the savings only exist if a rate case would otherwise have been brought, i.e., rates need to be changed.

A multiyear rate filing would be subject to the same analysis with respect to costs of review as was discussed in the future test year filing. The utility, the Board, Consumer Advocate, and interveners would be required to consider data concerning an historical test year as well as data concerning a future period. This future data would be very similar to data to support a future test year.

MidAmerican has suggested that other alternative ratemaking procedures might be proposed to determine the rates under a multiyear rate plan. Any alternative ratemaking procedures could increase the cost and complexity of a ratemaking proceeding.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

MidAmerican argues that allowing for multiyear ratemaking would provide rate predictability for businesses, government, and other Iowa consumers. However, the predictability of rates does not necessarily mean that the rates accurately reflect a utility's cost of service. In periods of high inflation and increasing costs, it is likely a utility would make annual filings, and in times of low inflation and declining costs, the utility would file a multiyear plan. Consumer Advocate would then be precluded from filing a rate reduction case. While there may be public policy objectives achieved through multiyear plans that are mutually beneficial to

[6] Attachment A to Consumer Advocate's Reply Comments filed October 3, 2003.

the utility and to its customers, more accurately reflecting a utility's cost of providing service is not a primary goal or a likely result.

d. Conclusion

This proposal would make a statutory change to allow the utility to propose and the Board to approve a multiyear rate plan. There have been several periods when multiyear agreements have been approved by the Board based upon a settlement among the parties to a general rate proceeding. This method of setting rates for a period of time has provided rate predictability and has protected consumers. MidAmerican has recognized that current procedures have worked to its benefit as well as the benefit of customers. The current procedures in which the parties negotiate a multiyear plan and bring it to the Board for its approval is a better method of developing rates that are set for a fixed period.

IV. TELECOMMUNICATIONS PROPOSALS

Description of Current Iowa Ratemaking Practices for Telecommunications

Telephone companies with 15,000 or more access lines are subject to the jurisdiction of the Board for rate regulation. Qwest, Iowa Telecom, and Frontier exceed the 15,000-line threshold. Until 1995 the Board set the rates for these companies using traditional rate of return regulation: Companies were regulated to allow them a reasonable opportunity to recover their costs and earn a profit. In 1995 the General Assembly passed legislation to allow incumbent local exchange companies (ILECs) greater flexibility in setting their own rates for local service. This form of regulation, known as price or incentive regulation, sets initial price caps that are periodically adjusted based on an inflation index and, originally, a productivity factor. In Iowa, two different price regulation plans were established based on the size of the company. If a company wishes to opt out of rate-of-return regulation, it would file a plan that met the requirements specified in the statute for a company of its size. Frontier opted into price regulation in 1995, GTE/Iowa Telecom in 1995, and U S West/Qwest in 1998. The price regulation plans of Qwest and Frontier are filed pursuant to Iowa Code § 476.97 and Iowa Telecom's plan is in Iowa Code § 476.97(11). Generally, the provisions of price regulation plans in Iowa are:

- The ILEC is not subject to rate-of-return restrictions for the duration of the plan.
- The ILEC's intrastate access rates are reduced to the same level as interstate access rates as of December 31 of the previous year.
- Initial price reductions of three percent are required in basic services or the ILEC can petition the Board to conduct a review to determine an appropriate regulated revenue requirement.
- Annual price changes for basic services are calculated based on the change in the Gross Domestic Product-Price Index (GDP-PI). Originally, this was reduced by a productivity offset. The two percent productivity offset for Iowa Telecom was eliminated by the Legislature in 2002. This resulted in additional revenues for the company of approximately $1.8 million in the first year. In 2003 the Legislature allowed Qwest ($5.8 million) and Frontier ($250,000) to retain their 2.6 percent productivity offset reductions.
- A mechanism was established to adjust prices to reflect exogenous factors.
- There is protection against cross-subsidization between basic and non-basic services.
- Under price regulation a company may decrease its rates, but it may not increase rates.

An understanding of the fundamentals of price regulation is important in the analysis of the telecommunications proposals. Under price regulation, an ILEC's

prices are not based on its cost of providing service to its customers. Instead, existing prices are adjusted each year based on an inflation index. This means that most of the telecommunication changes proposed in this docket cannot be analyzed to determine whether they will result in rates that more accurately reflect the utility's cost of providing service, because the prices for these utilities are not set by cost. Accordingly, the following analysis will focus on the statutory factor of cost-effectiveness, addressing rate accuracy only when it is relevant.

Iowa Telecom submitted several proposed changes in ratemaking procedures that related only to its price regulation plan. Qwest also made a proposal relating to classified directory advertising.

11. Initial Rates When Entering Price Regulation

a. Description of Proposal

Current statutory provisions require a telecommunications carrier that is changing from traditional rate regulation to price regulation to either lower its current rates for basic communications services by three percent or to establish new rates in a rate case. Iowa Telecom suggested this provision could be deleted because it is no longer necessary; all rate-regulated carriers have already opted for price regulation.

Qwest opposes the proposal because new rate-regulated carriers might be created (exceed the 15,000-line threshold) through growth or sale of exchanges.

Consumer Advocate opposes the elimination of the three percent basic rate reduction option as it leaves a traditional rate case as the only mechanism for setting initial prices, if a newly rate-regulated carrier decides to become price regulated.

b. Is the Proposal Cost Effective?

Removal of the requirement to reduce basic communications service rates by three percent when entering price regulation will not lower costs or contribute to the efficiency of regulation. Iowa Telecom's proposal is based on the assumption that all eligible local exchange carriers have already opted for price regulation, so this preliminary requirement will be of no use in the future. However, the record made in this investigation establishes that the statute could still be useful. If, for example, an already rate-regulated company opts for a change in plan, or if another carrier becomes eligible for rate regulation, this requirement could come into play. Without the option of an immediate three percent reduction in rates, the efficiency of regulation could be reduced because the only remaining option for setting initial prices would be a full rate case.

c. Conclusion

Iowa Telecom's proposed change is based on the premise that there is no likelihood of future use of this provision. However, the comments establish that the provision may still be useful and there is no cost associated with retaining the requirement.

12. Initial Access Rates When Entering Price Regulation

a. Description of Proposal

Iowa Telecom proposes to delete the requirements in Iowa Code §§ 476.97(11)"e"(6) and 476.97(3)"a"(1) and (2) relating to reducing access service rates when entering price regulation. Iowa Telecom asserts the provisions are no longer necessary. Access service rates are the charges a local carrier collects from a long distance carrier in return for carrying long distance calls through the local exchange.

The statutory provisions currently require a telecommunications carrier entering price regulation to reduce its average intrastate access service rates to the level of the carrier's interstate rates. Iowa Telecom suggests this provision is no longer necessary because all rate-regulated carriers have already opted for price regulation.

Qwest opposes the proposal because new rate-regulated carriers might be created through growth.

Consumer Advocate contends switched access is a basic communications service similar to basic residential and business local exchange service and that switched access prices should be regulated on the same basis as other basic communications services.

b. Is the Proposal Cost Effective?

The analysis of this proposal is the same as the preceding proposal. Iowa Telecom's proposal is based on the assumption that all eligible local exchange carriers have already opted for price regulation, so this requirement will be of no use in the future. However, the record made in this investigation establishes that the statute could still be useful in the future, as new rate-regulated carriers could still develop.

c. Conclusion

Iowa Telecom's proposed change is based on the premise that there is no likelihood of future use of this provision. However, the comments establish that

the provision may still be useful, and there is no cost associated with retaining the requirement.

13. More Frequent Modifications of Price Plans

a. Description of Proposal

Iowa Telecom proposes to amend Iowa Code § 476.97(11)"h"(2) to allow modification of its price plan every two years to reflect the rapidly changing telecommunications market.

The existing statutory provision allows modifications to Iowa Telecom's price regulation requirements every three years. Iowa Telecom believes that due to the evolving competitive local market and technological changes in the telecommunications industry, the option to review price increases and market changes needs to be available every two years, rather than every three years.

Consumer Advocate contends that Iowa Telecom’s proposal is unnecessary and unreasonable and believes Iowa Telecom is simply seeking another chance to increase prices after the Board denied the company's proposed increases in Docket No. RPU-02-4.

Qwest points out that it has operated under a price plan for six years and has not asked for any changes yet.

b. Is the Proposal Cost Effective?

This proposal potentially increases the frequency of price regulation modification proceedings, which would tend to increase the associated regulatory costs. The most significant benefit would be more frequent opportunity to review and modify Iowa Telecom's price regulation procedures. However, Iowa Telecom and its predecessor have operated under price regulation for over eight years with only a single request for modifications; this would indicate that the current three-year restriction is not causing any problems.

c. Conclusion

To date, there is no demonstrated need for this change.

14. 60-Day Extensions for Good Cause

a. Description of the Proposal

This proposal would delete the provision in Iowa Code § 476.97(11)"h"(2) that allows the Board to extend the time for consideration of a modification to a price regulation plan by an additional 60 days for good cause shown.

The existing statutory provision requires the Board to act on a proposal for modification of a price regulation plan within 180 days of filing, but for good cause the Board may extend its review by up to 60 days. Iowa Telecom admits there is very little experience with the new price regulation modification plan process but relies on experience in other types of dockets and similar proceedings to argue that it should be possible to complete these dockets in 180 days. Iowa Telecom states it is asking for some understanding from the Board that speed and promptness are very important.

Consumer Advocate believes that Iowa Telecom's proposal to remove the 60-day extension for good cause is unreasonable. Consumer Advocate suggests that unless and until effective competition develops and permits deregulation, customers need the minimum protection provided by allowing a fair opportunity to contest and determine price modifications.

b. Is the Proposal Cost Effective?

This proposal would shorten the time available to conduct price regulation modification proceedings. The result is likely to be a more concentrated procedural schedule and an increase in the associated costs for the Board and all parties. A shorter timeframe for proper analysis also poses the risk of creating an incomplete record, which can lead to a flawed decision. These costs may be partially offset by the potential benefits associated with faster agency action.

c. Conclusion

The Board has only heard one case under this provision. In that case, the Board extended the 180-day review period by approximately 30 days, in part to accommodate the scheduling needs of the parties. Based on this one experience, it is unlikely that this proposal would improve the cost-effectiveness or accuracy of price regulation.

15. Economic Development

a. Description of Proposal

This proposal would modify Iowa Code § 476.97(11)"h," relating to price plan modifications, by requiring that the Board's decision must consider economic development in rural communities as an explicit factor in its decision.

Iowa Telecom states that economic development and the promotion of rural Iowa is a high priority and that the availability of advanced telecommunications services is required to foster economic development in rural Iowa. Iowa Telecom believes it is appropriate that the Board explicitly consider the impact on economic development as it reviews proposed modifications to a price regulation plan because the Board's decision may have a direct effect on the carrier's ability to make state-of-the-art telecommunications available.

Qwest opposes this proposal because it believes that favoring one group of Iowans over another is not good public policy. Qwest states that the Telecommunications Act of 1996, § 254(b)(3), includes the following requirement:

> Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high-cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

Qwest believes this proposal would move away from this federal standard.

Consumer Advocate suggests that since Iowa Telecom is the only utility operating under subsection 11, the Board's obligation would apply only to local exchanges where Iowa Telecom is the incumbent local exchange carrier, and, therefore, would discriminate against all other areas of the state. Consumer Advocate also points out that the Board is a regulatory agency and not an economic development agency and should not be charged with a duty to promote economic development without being provided the necessary resources by, and the guidance of, the legislature.

b. Is the Proposal Cost Effective?

The proposal would not improve the cost effectiveness of these regulatory proceedings. Instead, it would amplify an existing set of issues. Moreover, the

Board is already permitted to consider economic development issues in price regulation modification proceedings, so the change appears to be unnecessary.

c. Conclusion

Legislative policy found at Iowa Code § 476.95(6) already recognizes that economic development can be fostered by the existence of advanced communications. However, this proposal is potentially discriminatory and is unlikely to improve either the cost-effectiveness or the accuracy of price regulation. Moreover, it may be inconsistent with a federally mandated requirement.

16. Bond Requirements

a. Description of Proposal

This proposal would modify Iowa Code § 476.97(11)"j" to allow Iowa Telecom to collect temporary rates during a price plan modification proceeding using only a corporate undertaking as security for the potential refund obligation, rather than an actual third-party bond.

The current statute provides that during a price regulation modification proceeding, the Board must allow the carrier to collect a temporary price increase of up to seventy-five percent of the overall request. The temporary price increase is secured by a bond intended to guarantee any refunds that may be required. The proposal is to allow use of a corporate undertaking in place of a bond; such an undertaking is essentially a promise from the utility that it will make the refunds if the Board orders it to. Iowa Telecom states that this change would allow it to avoid the expense associated with purchasing a bond. Iowa Telecom states the Board has a long history of dealing with temporary rates secured only by a corporate undertaking.

b. Is the Proposal Cost Effective?

The proposal would reduce costs for the carrier. It could potentially increase the customer risks associated with temporary rates, although any such increases are likely to be insignificant.

c. Conclusion

This proposal is cost-effective for the carrier, at the expense of a slight increase in risk for customers. It has no effect on the accuracy of prices.

17. Annual Price Increases for Non-Basic Services

a. Description of Proposal

Iowa Telecom proposes to increase the cap on annual price increases for non-basic services in Iowa Code § 476.97(11)"e"(3) from 6 percent to 10 percent.

The existing statutory provision prohibits a price-regulated local exchange carrier from increasing its aggregate revenue-weighted prices for non-basic (i.e., optional) communications services by more than six percent in any twelve-month period. Iowa Telecom states that these services should be priced to the market and not be subject to any cap. However, Iowa Telecom suggests that if a cap is to be maintained, it should be set at ten percent to offer greater pricing flexibility.

Consumer Advocate says Iowa Telecom's assertion that optional services should be priced to the market implies the market will set a reasonable price. However, if Iowa Telecom is the only provider in a particular market, the result will be an unregulated monopoly price. Consumer Advocate also states that the existing 6 percent cap is a necessary and generous limit that should not be increased.

b. Is the Proposal Cost Effective?

The record shows that Iowa Telecom raised its non-basic service prices twice in the last three years and both increases were for the maximum six percent. Increasing the cap would require Iowa Telecom's customers to face a potential ten-percent increase in non-basic communications services annually, without any apparent offsetting benefits.

c. Conclusion

The existing six percent cap appears to be an efficient and necessary restraint on potential monopoly pricing. The record does not establish that a different cap would be more cost-effective.

18. TSLRIC Price Floor

a. Description of Proposal

Iowa Telecom proposes to remove the total service long run incremental cost (TSLRIC) price floor in Iowa Code § 476.97(11)"e"(4) and replace it with a more general incremental cost standard.

The existing statute allows a price-regulated local exchange carrier to reduce the price for any basic communications service, but only down to a floor that is determined by using TSLRIC calculations. TSLRIC means the difference

between the company's total cost of providing service and the total cost of the company less the applicable service, feature, or function. The standard was originally developed for determining the price of unbundled network elements (a wholesale product). Iowa Telecom asserts it is not an appropriate method for determining a price floor for retail communications services. Instead, Iowa Telecom contends that a more general incremental cost approach, considering only variable costs and excluding service-specific fixed costs, is a more appropriate standard. Iowa Telecom does not specify a particular incremental cost formula; instead, the company suggests the appropriate price-floor standard should be determined on a case-by-case basis. Iowa Telecom states the benefit it seeks from changing the statute is more accuracy when figuring an appropriate price floor; however, it does not know whether that will result in higher prices or lower prices or what effect there would be on other rate-regulated companies or on competitors.

Qwest states that TSLRIC has historically been a reasonable method of establishing the cost of particular services in regulatory proceedings. Qwest believes that moving to incremental costs for some services, but not for others, will distort established pricing relationships among services.

Consumer Advocate is concerned about Iowa Telecom's lack of a specific definition for incremental cost. Because so much of the cost of telecommunications is categorized as common costs, which are considered under TSLRIC but may not be included under a general incremental cost method, Consumer Advocate asserts that it is probably in the public interest to have a uniform rule for all the rate-regulated companies, rather than one that is up for debate in every case.

b. Is the Proposal Cost Effective?

Iowa Telecom proposes to choose price-floor methodologies on an individual case basis. This approach would likely result in increased regulatory costs, as the process of choosing an appropriate incremental cost study would present additional issues for the parties to litigate and for the Board to decide. Further, it is uncertain whether these general pricing standards will have an effect on other rate-regulated companies and competitors or result in lower prices to customers.

c. Conclusion

This proposal is unlikely to be cost-effective. The current statute's use of a single, relatively well-defined cost methodology should be efficient and has not been shown to cause any problems or difficulties. Changing to a broader, less definite system would introduce additional issues without apparent benefit.

19. Individual Exchange Pricing Flexibility

a. Description of Proposal

Iowa Telecom proposes adding a new subsection 6 to Iowa Code § 476.97(11)"e" that would provide as follows: "Price increases or decreases may be established on an individual exchange basis."

Iowa Telecom asserts that as local exchange competition increases, it is appropriate to recognize the opportunity for pricing by exchange. It challenges the concept of uniform statewide rates and says the time has come to establish rates based on the costs and circumstances of individual exchanges. However, Iowa Telecom has not performed a complete analysis of its rates and does not know what adjustments are necessary and where they would apply. The company states it is attempting to achieve additional flexibility in how services are priced.

Qwest states the proposed language is not necessary, because it believes the price regulated carriers already have sufficient authority to price different exchanges at different levels and that the Board already has the authority to approve prices on an individual exchange basis.

Consumer Advocate states that all three rate-regulated companies already operate under identical pricing flexibility language. Consumer Advocate is concerned, however, that Iowa Telecom's proposal is missing a prohibition against making up lost revenues from lower rates by raising rates for other customers. Consumer Advocate characterizes this as classic monopoly behavior.

b. Is the Proposal Cost Effective?

All three rate-regulated carriers already have the ability to pursue individual exchange pricing flexibility through their respective plans, by submitting a cost study to the Board before reducing prices to meet competition. The proposed statutory change would only add the ability to increase prices in monopoly exchanges, which would tend to add regulatory costs without offsetting benefits.

c. Conclusion

Iowa Telecom made this proposal with the intent of increasing price flexibility. However, the record is clear that all three price-regulated carriers already have sufficient pricing flexibility to respond to competition. The change would only allow the exercise of monopoly pricing power, which is generally considered to be against public policy. As a result, the proposed change is unnecessary and not in the public interest.

20. Allow Increases in Access Rates

a. Description of Proposal

Iowa Telecom proposes to delete Iowa Code §§ 476.97(11)"i" and 476.97(3)"c"(3), which prohibit increasing intrastate access rates during price regulation. Access rates are the prices that a local exchange carrier charges to a long distance company to carry long distance calls within the local exchange. They are typically applied at both the originating and terminating ends of a long distance call.

These statutory provisions prohibit any increases in a local exchange carrier's average intrastate access service rates during the term of the local exchange carrier's operation under price regulation. Access rates are the only rates that cannot be increased under a price plan. Iowa Telecom argues there is no basis for a statutory prohibition and that the prohibition forces Iowa Telecom to impose greater increases in basic communications services rates to its retail customers.

Qwest believes access charges should be decreased, rather than increased. Qwest also believes that any decrease in access charges should include offsetting increases in rates for other basic communications services.

Consumer Advocate comments that allowing increases in access rates would be a reversal of the legislative policy adopted in Iowa Code § 476.97, which Consumer Advocate characterizes as a compromise between local exchange carriers and long distance carriers. However, Consumer Advocate contends that switched access is a basic communications service and should probably be regulated on the same basis.

b. Is the proposal cost effective?

To the extent Iowa Telecom would propose to increase its rates for access services, the proposal could increase the cost of regulatory proceedings, because the long distance carriers would be likely to intervene and oppose the proposed increases. This cost could be offset, partially or fully, by the benefits of reducing the increases in rates for other basic communications services.

c. Conclusion

This proposal could be cost-effective and has the potential to improve the accuracy of pricing for access services, if current access rates are too low. However, the current trend nationally is to reduce, rather than increase, access rates. This proposal would run counter to that trend.

21. Sale of Exchanges

a. Description of Proposal

Iowa Telecom proposes to change the requirement that a price-regulated carrier must re-calculate its average costs per customer whenever it sells an exchange. Iowa Telecom proposes to limit this requirement only to situations in which it sells relatively large exchanges with more than 5,000 customers.

Iowa Telecom asserts that its average costs are not likely to be materially affected by the sale of a small exchange and, therefore, it is appropriate to add a size threshold before a company is required to submit an analysis of the impact on average costs.

Qwest does not disagree with Iowa Telecom's proposal and points out that selling even a small exchange can actually lead to higher, rather than lower, average costs, due to the common costs that would be spread over fewer lines.

Consumer Advocate contends the proposal is unreasonable because regulated rates or prices are originally based on a utility's average cost for the specific service, which may include multiple rate or price zones distinguished by significantly different costs. Consumer Advocate believes Iowa Telecom is seeking to avoid having to change its prices to reflect any changes in average costs that may result from the sale of exchanges. The proposal would permit Iowa Telecom to sell higher cost exchanges, keep any gain realized, and continue to charge the same prices in other exchanges despite the reduction of average costs.

b. Is the Proposal Cost Effective?

The proposal would probably reduce costs from a regulatory standpoint because it would require less reporting to the Board. However, the result would be that carrier prices could be even farther removed from the actual cost of providing service to customers.

c. Conclusion

This proposal has the potential to be cost-effective, but it is very unlikely to increase the accuracy of a carrier's prices.

22. Classified Directory Advertising

a. Description of Proposal

Qwest proposes that Iowa Code §§ 476.1D(4) and 476.98 be changed to remove any references to consideration of the revenues associated with the sale of classified directory advertising.

Currently, Iowa Code § 476.1D(4) allows the Board to consider the investment, revenues, and expenses associated with the sale of classified directory advertising by a telephone utility in determining rates for the telephone utility. Iowa Code § 476.98, which provides for a report from Consumer Advocate to the General Assembly regarding carrier earnings under price regulation, requires that Consumer Advocate calculate both with and without considerations of directory advertising.

Qwest proposes to remove any reference to the sale of classified directory advertising, stating that the language is in direct conflict with the goal of making rates more accurately reflect the cost of providing service. It also believes that consideration of directory revenues when setting rates could create a barrier to competition. Further the statute is predicated on "sales" of advertising and Qwest no longer has any revenues from the sale of directory advertising.

Consumer Advocate believes leaving the language in the statute assures that in any future Qwest rate case, the Board can continue to impute to Qwest the profit it received from the sale of its directory publishing business. Consumer Advocate points out that Qwest's current retail prices continue to reflect imputation of directory profits and that Qwest made a commitment to the Board that in any future rate proceeding, of any nature, Qwest would be precluded from arguing against imputation of directory publishing revenues on the grounds that the directory publishing business has been sold. Consumer Advocate does not support this proposal.

b. Is the Proposal Cost Effective?

This proposal has some potential to reduce regulatory costs by eliminating one possible rate case issue. However, the expected result of this change would be higher rates for customers. Moreover, the Board already has the authority to reject imputation of directory assistance revenues, giving Qwest the same relief it is proposing. From this standpoint, the change appears to be unnecessary.

c. Conclusion

This proposal appears to be unnecessary. The Board already has the authority to grant Qwest the relief it is seeking if Qwest ever returns to traditional rate regulation. If Qwest stays under price regulation, the provision is harmless.

V. ENERGY EFFICIENCY PROPOSALS

Current Energy Efficiency Programs in Iowa

Rate-regulated utilities file energy efficiency plans with the Board periodically. An energy efficiency plan must address all customer classes and be cost effective. The Board reviews the plans and sets performance standards for the utilities in contested proceedings. Rate-regulated utilities recover the costs of energy efficiency programs through a charge included in the cost of electricity and natural gas. This charge is adjusted annually to match changes in the costs of energy efficiency programs and to account for changes in the amounts of kilowatt-hours and therms of natural gas used by customers. Examples of energy efficiency programs include replacing equipment or improving buildings to save energy and load management programs, which pay customers to reduce their use of electricity at peak times.

Municipal utilities and electric cooperatives, which are not rate regulated, also file energy efficiency plans with the Board. However, these plans are not mandatory and the Board's role is limited only to compiling and observing the numbers in their energy efficiency plans.

From 1990 through 2000, Iowa utilities attained levels of annual savings of more than 1,000 megawatts (MW) of peak electric demand, one million megawatt-hours of annual electricity use, and more than four million Mcf (thousand cubic feet) of natural gas. The energy efficiency programs of investor-owned utilities typically save two dollars in utility avoided costs for every dollar invested in programs. The programs also help keep utility customers' dollars in Iowa, by reducing costs for fuel from other states, and by encouraging customers to invest in energy saving products and services in Iowa.

The plans proposed by investor-owned utilities to be implemented over the next five years are intended to save electricity and natural gas with a net value of more than $650 million, using a societal benefit-cost test. This compares to savings of about $500 million for programs implemented by investor-owned utilities from 1990 through 1998. Although these energy efficiency savings tend to be less obvious because consumers avoid costs rather than receive direct savings, the positive impacts on Iowa utility customers are substantial.

23. Exempt Industry from Energy Efficiency Programs and Costs

a. Description of the Proposal

Ag Processing proposes that customers with an aggregated electric peak load of greater than two MW be exempt from energy efficiency participation and cost recovery on a voluntary basis. Ag Processing states that general energy

efficiency benefits do not return to large customers and that the energy efficiency programs of the rate-regulated utilities are harming large customers in various ways. While society as a whole may benefit from energy efficiency, such benefits are not being passed on, proportionately, to the ratepayers who fund the programs. Ag Processing asserts that a comparison of the money paid by large customers in energy efficiency surcharges versus the incentive dollars returned to the large customers shows a return of less than 70 cents on the dollar for all non-residential customers. It is even lower for customers who use more than two MW. Since equipment investments are made only every few decades, the monthly energy efficiency surcharge is nothing more than a tax on business.

Ag Processing was joined in this proposal by Agri Industrial Plastics, HON Industries Inc., IPSCO Steel Inc., Alcoa Mill Products, Box USA, Curries and Graham, Elkem Carbon, General Mills, Griffin Pipe Products Co., Griffin Wheel Company, Lehigh Cement Co., Nestle Purina, North Star Steel, Penford Products, PMX Industries, Inc., Progressive Foundry, and Quaker Foods & Beverages.

Consumer Advocate opposes the proposal because it is contrary to good public policy and would potentially undermine the significant advances made in this area over the past decade. It says energy efficiency programs are designed to achieve energy efficiency policies and goals for all customer classes by overcoming existing market barriers, such as lack of information and promotion, absentee ownership, and divided decision making, that preclude full realization of these objectives. Consumer Advocate asserts that for customers electing the proposed voluntary exemption from energy efficiency, these barriers will redevelop and persist. Consumer Advocate also suggests the need for statewide administration of energy efficiency programs.

Both IPL and MidAmerican are opposed to Ag Processing's proposal, because energy efficiency is an important policy of the State and is the responsibility of all customer groups. IPL states all customers benefit from elements such as research and development, education, low-income programs, and tree planting. In addition, MidAmerican asserts all customers benefit from the deferred or reduced future capacity and energy use, as well as from the environmental savings. These savings represent reductions in future costs and are not built into current revenue requirements.

MidAmerican states the current statutory and regulatory framework for energy efficiency plans in Iowa requires that there be a positive societal benefit for each of the programs offered and that the customers who use electric service receive the benefit of reduced future revenue requirements. For example, all residential electric customers contribute to residential energy efficiency programs. Even though a residential customer may choose not to participate in a particular energy efficiency program, the program will ultimately benefit all residential customers.

b. Is the Proposal Cost Effective?

Energy efficiency programs differ from other utility services. Programs conducted by investor-owned utilities in Iowa must, by definition, reduce the utility's costs and, thus, reduce the costs the utility passes on to customers. The expenditures for the energy efficiency improvements tend to occur all at once, up front, paid for by a combination of customer investments and utility incentives. Benefits accrue as a stream of reduced future utility costs, lowering the utility's future cost to serve its customers. In the end, future cost savings or benefits must be compared to present costs to accurately determine the effectiveness of the programs.

The costs of energy efficiency plans must be compared to the costs of new power plants or energy supplies to determine whether the investment in energy efficiency will cost less than new resources. If an energy efficiency plan costs the same as or more than the present value of a future power plant, or new supplies of energy, the Board must reject the plan. Because all customers are expected to benefit in the future from decisions made in the present, all customers are required to pay these costs.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

In the early 1990s, rate-regulated utilities in Iowa were prevented by law from recovering their energy efficiency costs at the time the costs were incurred. Utilities had to accumulate costs for several years and then apply for recovery through a special contested case proceeding. The delay in cost recovery added substantial amounts of carrying charges to energy efficiency costs. In 1996 the law was changed to allow the utilities to recover costs on a current basis. Thus the current method of cost recovery provides a reasonably accurate match of both the amount and timing of energy efficiency expenditures to the utilities' recovery of those costs. Exempting large industrial customers would not improve this system.

d. Conclusion

The proposal by Ag Processing cannot be shown to pass the cost effectiveness standard in Senate File 458, because the reduction of energy efficiency funding from large industrial customers will diminish future energy efficiency savings. There is no clear evidence the same customers will provide greater or more cost effective savings. The proposal also has the potential to increase future utility rates by reducing cost effective energy efficiency, thus forcing utilities to pass through to ratepayers the costs of acquiring additional energy resources.

24. Establish a Statewide Administrator for Energy Efficiency Programs

a. Description of the Proposal

Consumer Advocate proposes that a single, statewide administrator for energy efficiency programs should be established. It states that energy efficiency programs that are overseen by regulatory or other independent entities play an important role in enhancing the ability of private market actors to provide energy efficiency in the marketplace. Consumer Advocate believes an appropriate legislative change to meet this charge would be to adopt a recommendation of the Governor's Energy Policy Task Force to replace existing energy efficiency programs with a single, uniform program for all energy consumers.

Consumer Advocate cites "Efficiency Vermont" as an example of an independent entity wholly dedicated to helping customers save energy in a particular state. Consumer Advocate is mindful of the concern expressed during the workshop regarding the vulnerability of funding for state energy efficiency programs when state budgets are constrained. It supports the added condition that funding for this program should occur through energy efficiency cost recovery mechanisms comparable to the mechanisms currently used by rate-regulated utilities or through revenue based assessments on Iowa gas and electric utilities.

IPL disagrees with Consumer Advocate's proposal to create a separate, independent entity. The company states investor-owned utilities have effectively operated energy efficiency programs for the past decade. IPL does not believe that a third party administrator can deliver energy efficiency at the same high standards as provided by investor-owned utilities under the oversight of the Board.

MidAmerican does not support Consumer Advocate's proposal. Iowa utilities have already established vehicles for energy efficiency program delivery that have been very successful. In this time of tight government budgets, it is not appropriate to create a costly new infrastructure when there is ample evidence that the current approach is working to take appropriate advantage of energy efficiency opportunities.

b. Is the Proposal Cost Effective?

Consumer Advocate's proposal might create additional government administrative costs, while reducing or eliminating utility costs, for implementing energy efficiency programs. At this time it is unknown if the proposal would produce greater or lower energy efficiency results, at greater or lower benefit-cost ratios.

c. Would the Proposal Result in Rates That More Accurately Reflect a Utility's Cost of Providing Service?

If the proposal is funded through charges by utilities, administered in the same manner as current energy efficiency charges, the net result could be the same.

d. Conclusion

Consumer Advocate's proposal would require a transformation of energy efficiency programs in Iowa. It is outside the purview of Senate File 458's directive to review ratemaking procedures.

25. Require All Utilities to Conform to the Same Standards for Energy Efficiency Plans

a. Description of the Proposal

MidAmerican proposes that all categories of utilities should be required to offer their customers the advantages of energy efficiency programs so that all Iowa customers may benefit. The company states that municipal and cooperative utilities are not currently taking advantage of all energy efficiency opportunities in the same manner as rate-regulated utilities. MidAmerican believes the Legislature should seriously consider whether there is reason to change the law to provide for a level of energy efficiency programming and oversight of plans of these utilities that is similar to that of rate-regulated utilities.

Consumer Advocate agrees with this position stating that while it continues to prefer an independent entity whose sole mission is the delivery of energy efficiency, it agrees with MidAmerican that greater oversight of energy efficiency plans of non-rate regulated utilities in Iowa could result in increased realization of energy efficiency opportunities. Consumer Advocate says that these opportunities could be captured through: (1) increased standardization of utility energy efficiency programs, (2) coordinated and increased promotion of utility energy efficiency programs, and (3) the establishment of energy efficiency plan goals, assessment of plan performance, and implementation of appropriate strategies to improve and enhance plan performance.

In the workshop, the Iowa Association of Electric Cooperatives stated that:

> [T]he Association has not had the opportunity on this particular issue to solicit any feedback from the membership, but historically when these kinds of issues have come up, this is not the direction that the membership of the Association has directed us in, so

> [IAEC] would anticipate our membership not being in support of this particular proposal.

b. Is the Proposal Cost Effective?

There is no data on cost effectiveness from the information presented in this inquiry. There is very little information in the energy efficiency plans of non-rate regulated utilities on cost effectiveness.

c. Would the Proposal Result In Rates That More Accurately Reflect a Utility's Cost of Providing Service?

Similar to the question above, there is no information in the inquiry, and little or nothing available in the plans of non-rate regulated utilities.

d. Conclusion

MidAmerican's proposal does not strictly apply to ratemaking methods and, therefore, does not easily fit into the framework of this review. No information was presented to support the statement that "municipal and cooperative utilities are not presently taking advantage of all energy efficiency opportunities in the same manner as rate-regulated utilities."